

Case study on the late development of real estate project acquisition

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Abstract. Under the situation of the increasing market competition in the land bidding, auction and listing, the acquisition of real estate projects is becoming one of the effective ways for real estate enterprises to expand the scale of development and quickly occupy the market. How to quickly learn, analyze, lock and receive projects and how to carry out later development after receiving the project has become a key research area for many real estate development enterprises. This paper takes the Hangzhou Yuexixi share acquisition project by China Communications Construction Beijing United Development Co., Ltd as an example, introduces and analyzes the development after receiving project, so as to study and communicate with other real estate enterprises.

1. Introduction

With the emergence of the highest land auction prices in many places, the land prices are getting higher and higher. Many real estate enterprises believe that although bidding, auction and listing are an important way to get the land, the era of obtaining land appreciation profit after getting land by bidding, auction and listing is getting further and further away. At the same time, quality real estate resources as scarce resources are more and more precious. The real estate industry has entered the "silver age" of high investment and high risk, and its survival and competition environment will be increasingly bad. With the further increase of real estate regulation and control, the real estate industry "reshuffle" followed, the transfer of projects has become the norm. In this context, real estate acquisitions become increasingly fierce. In recent years, acquisitions in the real estate industry have increased exponentially[1-2].

Acquisition of real estate projects, as the name implies, is the acquisition of real estate projects of target companies. The acquirers acquire the development and management rights of the target companies by purchasing their real estate projects. Generally speaking, the acquisition of real estate projects usually adopts two modes: one is the acquisition of the equity of the real estate project company; the other is the acquisition of the assets of the real estate project company[3]. This paper takes the Hangzhou Yuexixi share acquisition project by China Communications Construction Beijing United Development Co., Ltd as an example, introduces and analyzes the development after receiving project, which avoids risks as far as possible and carries out reasonable and orderly development and construction.

2. Case analysis

2.1. Introduction of both sides of the cooperation



The project was set up by Hangzhou Xinhua Real Estate Co., Ltd which was established in December 6th 2011 by Huzhou Wanjia Real Estate Development Co., Ltd (hereinafter referred to as Huzhou Wanjia) and Shenghua Real Estate Group Co., Ltd (hereinafter referred to as Shenghua Real Estate). Huzhou Wanjia shared 20% and Shenghua Real Estate shared 80%. Later, Huzhou Wanjia transferred 20% shares to Shenghua Real Estate. Thus, Shenghua Real Estate held 100% shares in Hangzhou Xinhua Real Estate Co., Ltd.

Beijing United Development Co., Ltd (hereinafter referred to as "Beijing United Development") is a subsidiary of China Communications Construction Co., Ltd (hereinafter referred to as "CCCC") which is a large state-owned backbone enterprise supervised by the SASAC of the State Council. CCCC is the 11th of 225 international contractors in the world, the 19th of China's top 500 enterprises and the 165th of the world's top 500 enterprises. Since its establishment for 10 years, the company has always adhered to the most advanced development concept, high quality operation ability, formed the whole operation management system of real estate development, and become a professional real estate development enterprise with the best economic benefits per person in CCCC.

2.2. Project overview

The Yuexixi project is located in Yuhang District, Hangzhou City. To the north and east, it faces Dahuaxixi Park, with Yongsheng River in the south and Changer Road in the west. The project is 1.3 kilometers from Xixi National Wetland Park, 13 kilometers from Wulin Square in the city center and 12 kilometers from West Lake Scenic area. The products are divided into 7 multi-storey gardens that containing 227 sets of residences and 11 two-story rows that containing 30 sets of residences. The total area of structure is 56,939.99m², with 33,287.26m² on the ground and 23,652.73m² under the ground.

2.3. Key links in project acquisition

2.3.1. Acquisition preparation. After making sure the project information is reliable and consistent with the purchaser's basic investment intention, the investment development department of the real estate development enterprise will begin to collect relevant project data, carry out project research and investment calculation, and conduct feasibility analysis of acquisition projects. At this stage, lawyers need to assist both partners in communication. Through understanding the basic situation of the target project and the intended transferred equity of the target company, the lawyer prejudices the possible legal problems and risks, and advises the acquisition plan in writing to the acquirer, etc.

2.3.2. Sign a letter of intent (or a framework agreement). The purpose of the letter of intent is to make programmatic plans and arrangements for the acquisition of real estate projects in the form of equity acquisitions. Specifically, it includes three points: 1. To require the acquired party to cooperate with the acquirer for responsible investigation. 2. To set conditions for the acquirer to decide whether to proceed with the acquisition according to the responsible investigation results. 3. To provide the acquirer with a contractual basis for paying down money in accordance with the request of the acquired party.

2.3.3. Responsible investigation. Responsible investigation in equity acquisitions is an investigation of a series of legal questions conducted by external accountants and law firms, including the subject legitimacy of the target company, enterprise qualification, assets and liabilities, external guarantees, major contracts, related relationships, taxation, environmental protection, labor relations, etc.

2.3.4. Registration change. After signing the formal acquisition contract and related agreements, the final step in the acquisition of a real estate project is to change registration, including capital injection, formalities for industrial and commercial changes, Information and assets transfer, performing payment progress in accordance with the contract, and implementing relevant legal documents and so

on[4]. In November 14th 2014, Shenghua Real Estate transferred 80% of equities to Beijing United Development. In June 1st 2015, Beijing United Development signed a supplementary agreement on the equity transfer agreement with Shenghua Real Estate, acquired the remaining 20% of Shenghua Real Estate. By June 30th 2015, Beijing United Development had completed the industrial and commercial changes, and actually contributed 60 million yuan accounting for 100% of the registered capital.

2.4. Late business situation

Through the unremitting efforts of all the employees, the Yuexixi project has basically achieved the established target. According to the requirements of the company headquarters, the project soon entered the implementation stage after acquiring the equity, so as to do a good foundation work for building high-quality real estate projects. In terms of management organization, the details of project management, the internal organization and arrangement of team building, the whole process of project development and operation has been successfully completed. At the same time, it has also gained the valuable experience for Beijing United Development in the late development phase of the project. This model has been promoted and replicated in local and other areas within the company, which has got better results.

The project started on December 14th 2012, completed the acceptance of five partners on April 15th 2015, completed the acceptance of landscape completion on May 18th 2015, completed the acceptance record on May 18th 2015, and handed over house on June 20th 2015. All houses were sold out in June 2016, and all parking spaces were sold out in July 2017. The project was completely wound up. In accordance with the working arrangements related to "pressure reduction" of the CCCC, the industrial and commercial write-off was handled on December 25th 2017, and the cancellation of depositary banks and transfer of money to shareholders were completed on December 28th 2017.

2.5. Post evaluation of business index

Although the total investment, total income, total profit, cash flow return time and so on were slightly lower than or later than the original research report of obtaining land, they met the indexes of the process revised report completely, and met the requirements of the CCCC.

2.5.1. Net profit rate. At the end of the project, the net profit rate was 4.78%, more below the average in real estate industry. It can be found that small profits and multiple sales are the important reasons for the well sales performance, but the lower profit rate in the Yuexixi project.

2.5.2. Gross profit rate. At the end of the project, the gross profit rate was 19.81%, close to the average in real estate industry. The gross profit rate was better and the net profit rate was low, which illustrated the period cost (sales expense, management expense) of the project was relatively high, and the cost of the enterprise management was relatively large.

2.5.3. Cost ratio. At the end of the project, selling expenses accounted for 5.25% of business income, which was higher than the control target of 4% set by the CCCC. The main reason is that the company has adopted a series of promotional measures to speed up the sale of the remaining houses and parking spaces in Yuexixi project.

2.5.4. Inventory turnover ratio. At the end of the project, average inventory turnover ratio was 1.08, higher than the average level in real estate industry.

3. Project experience and inspiration

3.1. Accurate project location

According to the company's strategic positioning requirements, the company needs to quickly enter the regional market. The operation of the first project is not entirely the core goal of maximizing profits, but the development of a project with less investment, short period and quick effect. This allows the company to understand and familiarize with the local environment, to quickly build resources and connections, and to develop and train development teams.

3.2. Adequate preparation before acquisition

After obtaining the project information, the responsible investigation conducted by the Beijing United Development is full and detailed, and the signed agreement is rigorous and meticulous. When the project conditions are negotiated, the project enters the decision-making process of the project acquisition. In order to better guard against risks, the examination and approval is strictly controlled.

3.3. Risk avoidance in operation

First of all, after taking over the project, the management team appointed by Beijing United Development makes arrangements for the original employees. As a result of the acquisition of real estate companies, the employees will also undergo certain changes. Since the original employees of the target company are more familiar with the business of the company, after the acquisition, the acquirer should do a best job of stabilizing the original employees, continue to perform the labor contract signed with the original employees, and renew the employment of the original employees, which can effectively reduce the risk[5]. Secondly, the company should rearrange the resources of external units, including the government and the partners involved in the construction, and deal with individual disputes in a timely manner. The integration of the Beijing management team and the local staff, and the differences between private enterprises and central enterprises in their business philosophy, those all need attention in the management.

3.4. Bright spots in operation

As the Yuexixi project was acquired through the acquisition of equity, the superior company, as a new shareholder, also provided a solid guarantee in terms of capital. In order to speed up the sale of the housing resources on sale, the project company adopted has taken some measures, such as household transformation, some sales discounts, increasing marketing costs, and so on, achieved good results.

4. Conclusion

In the market environment of high land price, the acquisition of real estate project is a sharp weapon for the rapid expansion and development of real estate enterprises. With the different stages of real estate enterprises' survival and development, enterprises should pay attention to, understand and make good use of acquisition methods. Project acquisition is a new development mode and a survival skill that every manager of real estate enterprise must master skillfully. Project acquisition is the premise of enterprise upgrade and transformation, the lifeline of enterprise survival and the booster of enterprise development.

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